VZCZCXRO1516
OO RUEHDE RUEHDIR
DE RUEHAD #1221/01 2961416
ZNY SSSSS ZZH
O 221416Z OCT 08
FM AMEMBASSY ABU DHABI
TO RUEHC/SECSTATE WASHDC IMMEDIATE 1650
INFO RUEHDE/AMCONSUL DUBAI PRIORITY 8003
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE

S E C R E T SECTION 01 OF 02 ABU DHABI 001221

SIPDIS

DEPARTMENT FOR NEA/FO, NEA/ARP (BMASILKO) AND EEB
STATE PLEASE PASS USTR (BUNTIN)

E.O. 12958: DECL: 10/21/2018
TAGS: EFIN ECON EINV PGOV AE
SUBJECT: UAE'S RESPONSE TO FINANCIAL CRISIS

REFS: A) ABU DHABI 1141
B) ABU DHABI 1079

ABU DHABI 00001221 001.2 OF 002

Classified by Ambassador Richard G. Olson for reasons 1.4 (b,d).

¶1. (C) Summary. Like the US and Europe, the UAEG has taken a number of steps to stave off the worst of the global financial crisis impact. While the initial steps may have been poorly coordinated, the full court press that began October 12 seems to have had the desired impact. Investors and depositors seem to have regained confidence, and indications suggest that what was predicted to be a bust may simply bring a much-needed respite in inflation. End Summary.

GOVERNMENT EFFORTS

¶2. (SBU) While initially many in the UAE were quick to argue the global economic crises would not affect the local market, by mid-September it was clear that the impact was significant. The international uncertainty, a jittery local market and rumors of Dubai's pending bust (septel) led the government to ramp up its efforts to shore up investor confidence. Rumors swirled about the financial difficulties at Abu Dhabi Commercial Bank and First Gulf Bank. According to a senior Abu Dhabi finance official, the National Bank of Abu Dhabi saw a rush of deposits from its smaller weaker rivals. On September 17, the Ministry of Economy argued that the economy was immune to the global crisis. Yet, on September 22 the Central Bank announced it would inject AED 50 billion (USD 14 billion) into local banks in an effort to reduce interbank lending rates.

¶3. (S/NF) This initial announcement did little to calm investors, and local markets continue to decline (Ref A). Many speculated that Dubai was on the verge of bankruptcy and wondered about the health of domestic banks and real estate companies. On October 8, the Central Bank cut its bank lending rate from five to three percent and the CD REPO rate from 2.0 to 1.5 percent. On October 13, Central Bank Governor Sultan bin Nasser al Sowaidi made a public statement that "national and foreign banks in the UAE enjoy a strong financial position." On October 14, Prime Minister and Ruler of Dubai Sheikh Mohammed bin Rashid Al Maktoum (MbR) ordered the transfer of $19 billion to the Ministry of Finance to inject liquidity into the banking sector. MbR also convened an extraordinary Cabinet session announcing the government would insure all local bank deposits. The next day officials clarified that only banks with "significant" operations would be guaranteed; a clarification that effectively excluded Iranian banks operating in the UAE.

MARKETS RESPOND

¶4. (C) The ramped up response seems to have calmed UAE markets. Although one senior Abu Dhabi Investment Authority (ADIA) official told the Ambassador the government was under pressure to "do something" about the stock market declines, the banking announcements, along with rebounding in US and EU markets, seem to have restored investor confidence. Stocks have seen significant gains following the announcements, with the Abu Dhabi Stock Exchange gaining almost 9 percent in the past week.

BUT UNCERTAINTY LINGERS

¶5. (C) Although the extent of local banks exposure to the sub-prime crisis and the ultimate impact of tight international liquidity on other financial sectors is unclear, dismal news is expected. A Security and Commodities Authority advisor told EconOff on October 22 that some banks' liability to asset ratios may approach 150%. Smaller and weaker financial and real estate entities may be forced to merge. In early October, Islamic real estate firms Amlak and Tamweel announced their merger; both of the firms were described as "bankrupt" by a senior Abu Dhabi finance official. Shuaa Capital, a Dubai-based Gulf investment company, reported October 20 that it lost almost $100 million in the third half of 2008.

¶6. (C) Given the uncertainty, the UAEG continues its efforts to strengthen the economy. On October 21, the Cabinet convened an extraordinary session to approve the 2009 budget. The surprise announcement of the budget, which usually is approved in December, combined with a 22 percent increase in expenditures, sends a strong signal that the government is ready and able to stave off a downturn. The first $5-6 billion tranche of the Central Bank liquidity injection is expected October 23. The argument that slower growth (to the tune of 5-6 percent) and lower returns may be good for the

economy in the short term is beginning to gain popularity. The result could be a much-needed respite in inflation and a necessary consolidation in the banking and real estate sectors.

¶7. (C) Comment. Although the government's response initially appeared uncoordinated and insufficient, financial officials are now predicting a managed slow down. The positive response of the market suggests the official plan may work. However, the uncertainty has the country awash in rumors about the impact on Dubai and Abu Dhabi's future (septel). End Comment.
OLSON